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US jobs data point to continued stimulus

By Robin Harding in Washington

One of the US Federal Reserve's favourite measures of the jobs market lay stagnant in January, giving the bank little reason to cut short asset purchases of $85bn a month.

The hires rate was unchanged at 3.1 per cent – far below the 4 per cent common before the recession – and the quits rate was mired at 1.6 per cent compared with 2.2 per cent in 2006.

Those measures have gained new importance since Janet Yellen, vice-chairman of the Fed and a likely candidate to succeed chairman Ben Bernanke if he steps down at the start of 2014, said she was using them to help assess the labour market.

The Fed's view on jobs is crucial because it plans to continue QE3 – the nickname for its third round of quantitative easing, aimed at driving down long-term interest rates – until there is a "substantial improvement" in the labour market outlook.

Ms Yellen said in a speech this month that the unemployment rate was her main measure of the labour market, but she would back it up with a few others including the hiring and quitting rates.

Those rates measure the number of people being taken on or leaving jobs as a percentage of those in work. When the labour market is strong, people tend to change jobs more often, and the hires and quits rates go up.

They may become even more important after February payroll numbers showed a drop in the unemployment rate from 7.9 to 7.7 per cent – but only because of a big fall in the number of workers in the labour market.

That could mean the unemployment rate fell because the jobs market is weak, not strong. Hiring and quitting rates are not affected by people dropping out of work altogether.

"Going forward, I would look for an increase in the rate of hiring," said Ms Yellen. "Similarly, a pickup in the quit rate, which also remains at a low level, would signal that workers perceive that their chances to be rehired are good."

There were a few signs of life in the Job Openings and Labor Turnover Survey, known as Jolts. The quits rate in the private sector rose from 1.8 to 1.9 per cent – the highest since October 2008, just after the collapse of Lehman Brothers – suggesting that demand for workers from companies is picking up.

That was driven by a jump in the construction quits rate from 1.2 per cent in December to 2.2 per cent in January – the highest since 2008 – as 126,000 construction workers chose to leave their jobs compared with 68,000 in December.

A recovery in house prices and a revival in new building led to the biggest increase in construction jobs since March 2007, according to payrolls data last Friday.

The Fed plans to review QE3 at a meeting next week, after some members of the rate-setting Federal Open Market Committee raised concerns about its costs and risks, but it is very unlikely to slow down the purchases just yet.